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SUBJECT: SCENESETTER FOR AMBASSADOR RICE

Classified By: Consul General Daniel Rubinstein
for reasons 1.4 (b,d).

¶1. (C) Summary. Since the Hamas takeover of Gaza in June 2007 and the subsequent establishment of an "emergency government" in the West Bank under PM Salam Fayyad, the trajectories of Gaza and the West Bank have increasingly diverged. In Gaza, Hamas has consolidated control, thanks to external support and the smuggling economy. In the West Bank, security and economic conditions have improved due to the efforts of Fayyad's government, strong donor support, and an easing by Israel of some obstacles to movement. PA President Mahmud Abbas (Abu Mazen) saw his standing improve this summer when he successfully led meetings of Fatah and the PLO, which elected new leaders for the first time in decades. However, many of these gains evaporated in the face of public anger at his decision to support a deferral of the Goldstone report in the HRC, and what many Palestinians see as fading prospects for resuming negotiations with the GOI. Abu Mazen's political weakness led him to reverse course and support a special session at the HRC; the domestic turmoil has also produced spillover effects in his relations with the Israelis, the Egyptians, and the USG. The USG continues to provide considerable support to the Palestinian people and the PA, and remains UNRWA's largest bilateral donor. Total USG financial support since the start of the Oslo period is roughly USD 5 billion dollars. End Summary.

GOLDSTONE REVERBERATIONS CONTINUE

¶2. (C) This summer, in his fourth year in office as President, Abu Mazen finally emerged from Yasir Arafat's shadow, convening the Fatah National Congress and the (PLO's) Palestine National Council within the span of two weeks to elect new leadership, after decades of delay. Abu Mazen emerged from these events strengthened politically. Over the course of the fall, several events unravelled these political gains. After his meetings in New York with the U.S. and Israel on the margins of UNGA, a perception began to emerge among Palestinians and their leadership that prospects for negotiations may be receding. Then came Abu Mazen's decision to support a deferral of the Goldstone report in the Human Rights Council, which triggered a domestic political crisis that continues today.

¶3. (C) While the Goldstone decision was bound to be unpopular, several factors amplified its impact in Palestinian politics. Abu Mazen's reported failure to consult even his closest aides meant the blame quickly focused on him personally. Damaging allegations surfaced in the Israeli press, such as the reported existence of call transcripts documenting senior Palestinian officials encouraging their Israeli counterparts during the Gaza conflict last December-January. Regardless of their veracity, these reports have contributed to shaping the post-Goldstone landscape in a region that feeds on conspiracy theories. A harsh campaign against Abu Mazen in pan-Arab

media, and senior Arab officials' statements condemning the decision, added fuel to the fire. Abu Mazen attempted to stem the hemorrhaging by reversing his decision on Goldstone, and by delivering a public address on October 11, but Post contacts generally felt his decision not to accept responsibility was a mistake.

¶4. (C) However, the first post-Goldstone opinion polls are now starting to emerge, and show Abu Mazen's standing may not have suffered as much as the pollsters initially feared. (These polls suggest that Abu Mazen's losses may have been partially offset by a nationalistic reaction among Palestinians to what they perceived as an excessive media campaign against them.) A PLO investigative committee's report into the Goldstone decision may be released shortly before your visit, keeping this issue on the forefront of the domestic agenda.

¶5. (C) Abu Mazen's post-Goldstone weakness has bled into other issues as well. Earlier this week, long-running Egyptian efforts to forge a reconciliation agreement between Hamas (which took control of Gaza in a June 2007 coup) and Fatah came to a head, when the GOE passed Hamas and Fatah a new draft agreement and an ultimatum to sign it without amendment by October 15. Abu Mazen reacted emotionally to the move, fearful, as he told us, of once again being blamed in Arab public opinion. Consequently, he adopted a very risky strategy of publicly accepting the reconciliation agreement - despite serious USG concerns - in order to put the GOE and Hamas into a corner. If Hamas refused, Fatah reasoned, it would be seen as siding against Palestinian interests. If Hamas accepted, the GOE would face problems

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with the USG Brinksmanship continued up to the Egyptians' October 15 deadline, which the GOE ultimately delayed; Abu Mazen subsequently withdrew his support for the problematic text.

Relations with Israel

¶6. (S) Palestinian leaders remains reluctant to enter into negotiations without two elements in place. First, they seek to restart negotiations from where they claim discussions left off with former PM Olmert last year. Second, they continue to seek a settlement freeze that includes East Jerusalem. Palestinian negotiators often claim to regret having entered the Annapolis process without agreement on this issue (they instead agreed to allow the USG to "judge" the parties' performance on the Roadmap) and claim it ultimately undermined the talks. The leadership also remains suspicious of PM Netanyahu's intentions, and doubt his current coalition is capable of strategic moves on the Palestinian track.

¶7. (S) In the absence of a political dialogue, official contact between the two sides is largely restricted to working-level security coordination. The USG remains actively engaged in monitoring each side's progress with its Roadmap obligations, through the monthly visits of Lt Gen Paul Selva.

Economy and Governance in the West Bank and Gaza

¶8. (C) Meanwhile, the government of PM Fayyad continues to improve conditions in the West Bank. Fayyad's government program is explicitly tied to his "Two-Year Plan to Statehood," a program published in August 2009 which sets out the political imperative of building the governing institutions of a Palestinian state. True to his IMF background, Fayyad has prioritized institution building and internal reform and dramatically overhauled the PA's fiscal systems. Fayyad has been aggressive in seeking technical support from multilateral agencies -- including the WCO, WTO,

UNCTAD, and ITU -- to advance his regulatory reform agenda. He has also chafed at GOI criticism of the plan as a "unilateral" move, and counters the criticism by terming his plan "positive unilateralism" in contrast to the negative unilateral GOI steps in Jerusalem and on settlements.

¶9. (C) The economic situation has dramatically improved over the past two years, due to Fayyad's leadership and reform efforts. A massive infusion of donor funds and improved governmental performance, combined with Israeli measures to ease movement within the West Bank, have translated into real economic progress in major cities. Nevertheless, a web of Israeli restrictions on imports/exports, permitting, and resources prevent normal economic growth in key areas. High-profile foreign investments -- including in the telecom sector -- remain in the works, but have not materialized as fast as the PA had hoped, due to both Palestinian and Israeli hurdles. In order to prolong this economic surge, the West Bank business community will need to find new markets, generate new investments, and create jobs. Under Fayyad, the PA has also made progress in other important areas such as incitement -- for example, imams in the West Bank's 1,500 mosques must now adhere to a common Friday sermon.

¶10. (C) Improvements in West Bank security conditions over the past two years are intertwined with the economic recovery described above. U.S.-funded training programs for PA security forces are producing professional, cohesive, and well-equipped units. Fayyad's deployment of these forces in Nablus, Jenin, Hebron, and Qalqiliya -- combined with a PA-GOI amnesty program -- has achieved noticeable gains in law and order, and in curtailing the activities of armed militias in the West Bank. Fayyad and his security chiefs now seek to exercise the full range of powers and responsibilities enjoyed by the PA in West Bank Palestinian population centers prior to the second Intifada. Finally, tensions have lately risen in the Old City of Jerusalem during the recent Jewish high holidays, as provocateurs (including Israeli Arabs) spread rumors that Jewish organizations intended to ascend the Temple Mount/Haram al-Sharif. Sporadic violence between Muslim protestors and Israeli police resulted inside the Old City. A fragile calm has been restored following the end of the Jewish holiday of Sukkot (Tabernacles).

¶11. (C) The gap between the West Bank and Gaza economies continues to grow. Hamas remains focused on its three-fold

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agenda of gradual Islamization, consolidating economic and security control, and chipping away at its international isolation. Trade between the two territories is now virtually nonexistent. Gaza remains above the level of a true humanitarian catastrophe only as a result of continuing PA salary payments to 70,000 (furloughed) civil servants, massive donor support, and vibrant trade through the tunnels with Egypt. The traditional business community in Gaza, exporters of agriculture, textiles, furniture, and other finished products, has completely collapsed. Imports to Gaza through the crossings are largely restricted to food items and other basic supplies, effectively preventing reconstruction. Unemployment in Gaza is estimated to be close to 40 percent.

The Role of USG and UN Assistance

¶12. (C) While the PA continues to run a large budget deficit, its transparent, accountable financial structures allow donors to contribute with confidence. External donor support, which drove much of the current West Bank economic expansion, will continue, but will not increase. The USG remains the single largest bilateral donor to the PA, with a running total of nearly USD 5 billion in assistance since the 1993 Oslo Agreement (Declaration of Principles) was signed.

In addition to significant development assistance through USAID and support to agencies like UNRWA, the U.S. has provided unprecedented levels of direct budget support to Fayyad,s government (USD 300m in 2008; USD 200m in 2009).

¶13. (C) The UN Relief and Works Agency for Palestine Refugees (UNRWA) provides primary health, education, and relief services to over 4.7 million Palestinian refugees across the West Bank, Gaza, Jordan, Syria, and Lebanon. UNRWA, which is commemorating its 60th anniversary this year, struggles against chronic underfunding and aging infrastructure. For the first time, the agency will be unable in December to pay salaries for nearly 30,000 Palestinian staff across the region. The USG is UNRWA,s largest bilateral donor, and contributed nearly USD 268 million to the agency,s operations in FY2009. Roughly USD 116 million went to UNRWA,s regular budget of USD 545 million; the remainder went to support UNRWA,s emergency programs in Gaza, the West Bank and northern Lebanon (Nahr al Bared refugee camp). UNRWA,s Commissioner General Karen AbuZayd, an American citizen, will retire at the end of the year. UNRWA's Deputy Commissioner General, Italian national Filippo Grandi, is expected to take her place; another U.S. citizen is on the shortlist for the deputy slot.

¶14. (C) In 2008-2009, approximately USD 150 million in INL funds have underwritten non-lethal security assistance and training programs overseen by the U.S. Security Coordinator (LTG Keith Dayton). To date, the USSC has contracted a Jordanian police facility to train four battalions (approximately 2,200 men) of gendarmerie-like National Security Forces, and one 400-man battalion of Presidential Guards, whose primary role is protective security. INL has funded USSC to build a training center and a garrison (more are under construction), as well as a Strategic Planning Department to assist with Ministry of Interior security planning. Approximately USD 150 million has been allocated for FY 2010 to continue these programs.

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